

Strategic Planning Research Report: Homeownership

**Prepared for the
Michigan State Housing
Development Authority**

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Conclusions

Lenders and real estate agents who participated in the survey are an exclusive and not necessarily representative group. The participating lenders have previous experience with MSHDA mortgage products—sometimes, considerable experience—while more than half of the participating real estate agents specialize in affordable single-family housing. While these experiences may set respondents apart from their peers, they also render them apt participants in a discussion about challenges and opportunities in affordable single-family housing in Michigan.

Nearly three-quarters of the respondents think Michigan buyers have at least “some” good choices in affordable single-family housing, and just over half expect their business opportunities in affordable housing to improve in the next five years. Lenders are more optimistic than real estate agents on both counts. Job loss and economic transformation is a leading reason both real estate agents and lenders expect their affordable-housing business to increase. Lenders also expect improvement because new products are emerging to serve this market segment. Real estate agents expecting their business to decline were particularly likely to speak of rapidly

increasing housing prices in their service areas. Some of the participants in the interview series were concerned about the potential for forces in the national real estate market to affect Michigan.

The most important barrier to homeownership that respondents see is that many clients have damaged credit or issues with financial management and do not have adequate understanding of these issues. Other issues that the majority sees as a problem are that there is too little newly constructed affordable housing, affordable homes are in need of too much rehabilitation, and available affordable homes are located in troubled neighborhoods. Lenders and real estate agents tended to agree that several issues were not serious problems, including the array of available mortgage options; municipal zoning policies; and the distance between available, affordable housing and buyers' workplaces. However, questions about zoning resulted in an unusually high number of "don't know" responses, suggesting that these professionals may be uncertain about the role of zoning in the outcomes they see.

Given these perceptions, it is not surprising that if the respondents could pursue any idea or strategy to improve access to homeownership, the most common approach would be to invest in education and tools for managing credit, repairing credit, and preparing first-time homebuyers for the financial realities of homeownership. Some of the other ideas that respondents offered included boosting the supply of affordable housing through such means as tax credits for developers, pilot or model projects, or establishing affordable housing goals in community master plans; finding more aggressive ways to finance rehabilitation costs for those purchasing an existing home; making down payment assistance more accessible and offering deeper subsidies; and more aggressive marketing of financing options for those in the targeted income ranges.

Most of the participating lenders close two or fewer MSHDA mortgages per month and 59% said their MSHDA business has increased in the last year. They agree overwhelmingly that MSHDA products are good products for those of low and moderate income, and there was strong—but not overwhelming—agreement that MSHDA products are attractive to lenders. Consistent with findings from 2003 survey research, 38% of the lenders indicated there are other products they

prefer to recommend. Based on the results of key informant interviews and prior research, it seems fair to conclude that lenders may find MSHDA loans less attractive than comparable products because of paperwork and process complexity and because commissions are relatively low. Only a handful of lenders agreed that real estate agents frequently advise their clients to consider a MSHDA mortgage.

Among participating real estate agents, approximately half reported that they work with one or fewer clients per month using a MSHDA mortgage and the remainder said they have no regular connection to clients using MSHDA mortgage products. While agents were reluctant to answer questions about MSHDA products and many lacked familiarity with the agency and its products, those who did agreed that MSHDA products are good products for those of low and moderate income and that the products are attractive to them as professionals. They were uncertain if lenders like to work with MSHDA products. Those that responded were likely to say they personally recommend MSHDA mortgages, but many did not respond.

Recommendations

Several of the ideas and observations gleaned from the research must be balanced against MSHDA's priorities, budget, and sense of role. Drawing on the broader research effort, including findings from similar research on the perceptions of multifamily housing developers and community-development specialists, PPA offers the following limited recommendations to the homeownership planning group:

- *Increase outreach to real estate professionals, lenders, and potential homebuyers.* Real estate agents are typically the first person with whom a potential buyer speaks, yet even the very small number of real estate agents who participated in the research—most of whom specialize in affordable single-family housing—were often not familiar with MSHDA or its mortgage products. Lenders were highly unlikely to agree that real estate agents frequently recommend MSHDA, and indeed sometimes noted in open-ended comments that they may steer buyers to other, less advantageous borrowing situations. Responding lenders, while more numerous and versed in MSHDA products, represent only a small proportion of the total lender pool, and respondents throughout the research often commented that many potential homebuyers are unaware of MSHDA and its programs.

- *Work continuously to simplify and streamline MSHDA's mortgage lending processes.* Many lenders described MSHDA's process as cumbersome and indicated they prefer other, comparable products because they are simpler to execute. Lenders also sometimes commented that real estate agents avoid MSHDA products because they are perceived as too time and labor intensive.
- *If MSHDA decides to pursue recommendations to invest in credit and homeownership education, consider developing such programs in collaboration with other MSHDA departments and entities.* At least one participant in each strand of the total research project drew attention to the problems of credit management and financial education. Multifamily housing developers, including nonprofits, encounter this issue in the context of rent collection and recognize that homeownership is the goal and ideal of many renters.
- *If MSHDA decides to pursue the challenge of developing appropriate financing for rehabilitation of existing housing stock, consider this issue alongside the issue of housing replacement.* Community development professionals also expressed a strong interest in better options and answers to the challenge of aging housing stock. However, particularly in rural areas, many were reluctant to fully endorse increased investment in rehabilitation out of concern that some housing stock is so dilapidated and aged that the money would be better spent in demolition and replacement.